

**LAKEVIEW COMMUNITY SCHOOLS**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2006**

# LAKEVIEW COMMUNITY SCHOOLS

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**LAKEVIEW COMMUNITY SCHOOLS  
ADMINISTRATIVE PERSONNEL  
YEAR ENDED JUNE 30, 2006**

**SCHOOL BOARD MEMBERS**

Timothy Reed	President
Richard Boomer	Vice-President
Douglas Bucholtz	Secretary
Daryl Johnson	Treasurer
William Drews	Trustee
Jim Shaw	Trustee
Catrina Woodruff	Trustee

**SUPERINTENDENT**

J. Mark Parsons

**PRINCIPALS**

Michael J. Travis	High School
Robert Ivan	Middle School
Edward Parish, Ed.D.	Elementary School
Kellye Wood	Elementary School

**DIRECTOR OF BUSINESS OPERATIONS**

Dixie M. Pope, Ed.D.

**DIRECTOR OF STATE/FEDERAL PROGRAMS**

Sara L. Shriver



# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

## INDEPENDENT AUDITORS' REPORT

August 3, 2006

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **LAKEVIEW COMMUNITY SCHOOLS (the "District")**, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lakeview Community Schools' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of June 30, 2006, and the respective changes in financial position, where applicable, thereof and the budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, our report dated August 3, 2006 on our consideration of Lakeview Community Schools' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants, agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lakeview Community Schools' basic financial statements. The combining and individual fund financial statements and schedules, are presented for purposes of additional analysis and are not a required part of Lakeview Community Schools' basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

# Lakeview Community Schools

123 Fifth Street  
Lakeview, Michigan 48850

Phone: 989-352-6226  
Fax: 989-352-8245

J. Mark Parsons, Superintendent  
Dixie M. Pope, Director of Business Operations  
[www.lakeviewschools.net](http://www.lakeviewschools.net)

## Management's Discussion and Analysis

As management of Lakeview Community Schools, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2006.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$529,570 (*net assets*). Of this amount, \$497,875 (*unrestricted net assets*) may be used to meet the District's ongoing obligations for general district programs.
- The District's total net assets decreased by \$1,678,196. The majority of this decrease (79%) is due to the impairment loss recognized on Trufant Elementary which was not used as a school building in the current year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,424,546, a decrease of \$711,024 in comparison with the prior year.
- At the end of the current fiscal year, unreserved undesignated fund balance for the general fund was \$273,482 or 2.0% percent of total general fund expenditures and transfers out.
- Investments for the future were made by spending \$194,056 on school improvements, vehicles and equipment.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements including management discussion and analysis, budgetary schedules and combining statements for non-major and fiduciary funds.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused compensated leave).

Both of the government-wide financial statements display functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The activities of the District include instruction, supporting services, community services, food services, athletics and other services. The District has no business-type activities as of and for the year ended June 30, 2006.

The government-wide financial statements can be found on pages 10-11 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District fall within the governmental and fiduciary fund type category.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating the District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains ten individual governmental and two agency funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other nine governmental funds are combined into a single, aggregated presentation. These funds include six debt service funds, a food service fund, a preschool fund and an athletic special revenue fund. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The governmental fund financial statements can be found on pages 12-16 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Lakeview Community Schools' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 17 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-29 of this report.

**Other information.** The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 30-38 of this report.

## **Government-wide Financial Analysis**

As noted earlier, net assets may serve over time as a useful indicator of the District's financial position. In the case of the District, assets exceeded liabilities by \$529,570 at the close of the most recent fiscal year. The timing of debt service payments and depreciation expense of capital assets has a significant impact on this balance.

A portion of the District's net assets reflect investment in capital assets net of related debt (e.g., land, buildings, vehicles, and equipment, less any related debt used to acquire those assets that is still outstanding). In the current year, this amount is negative due to the \$1,315,924 impairment loss recognized on Trufant Elementary. The District uses these capital assets to provide services to the students it serves; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### Lakeview Community Schools' Net Assets

	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 4,810,943	\$ 4,069,200
Capital assets, net	<u>19,895,673</u>	<u>18,006,343</u>
Total assets	<u>24,706,616</u>	<u>22,075,543</u>
Current liabilities	3,718,697	3,754,276
Long-term liabilities outstanding	<u>18,780,153</u>	<u>17,791,697</u>
Total liabilities	<u>22,498,850</u>	<u>21,545,973</u>
Net assets:		
Invested in capital assets, net of related debt	644,300	(439,068)
Restricted	585,416	470,763
Unrestricted	<u>978,050</u>	<u>497,875</u>
<b>Total net assets</b>	<b><u>\$ 2,207,776</u></b>	<b><u>\$ 529,570</u></b>

An additional portion of the District's net assets represents resources that are subject to other external restrictions on how they may be used. The remaining balance of *unrestricted net assets* may be used to meet the District's ongoing obligations to its general programs.



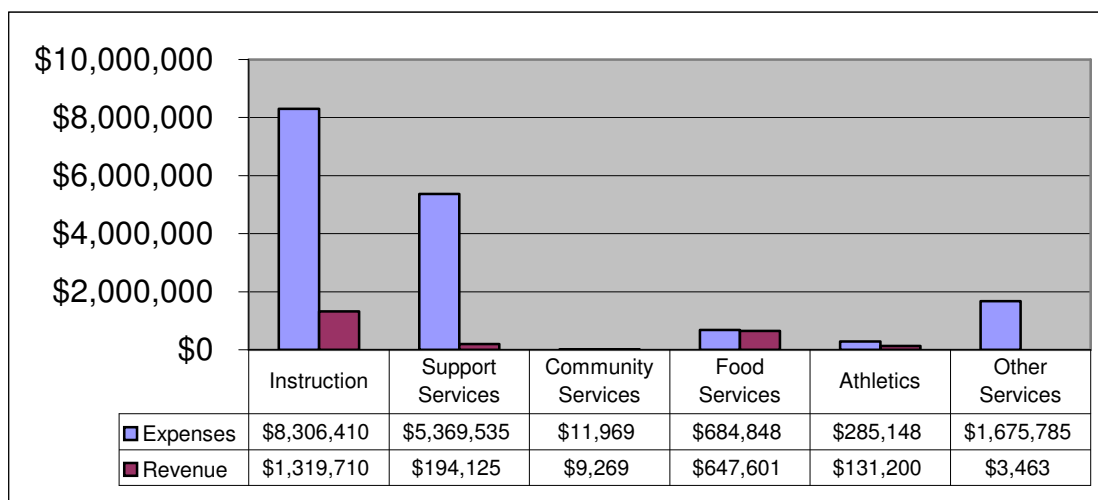
## Lakeview Community Schools' Changes in Net Assets

	<u>2005</u>	<u>2006</u>
<b>Program revenue:</b>		
Charges for services	\$ 463,292	\$ 531,791
Operating grants and contributions	1,918,684	1,757,710
Capital grants and contributions	15,867	15,867
<b>General revenue:</b>		
Property taxes - operations	1,377,214	1,523,154
Property taxes - debt service	1,669,639	1,783,344
Grants and contributions not restricted to specific programs	10,620,978	10,290,250
Universal Service Funds	15,734	17,227
Gain on sale of capital assets	1,302	5,974
Unrestricted investment earnings	<u>29,306</u>	<u>46,106</u>
<b>Total revenue</b>	<b><u>16,112,016</u></b>	<b><u>15,971,423</u></b>
<b>Expenses:</b>		
Instruction	8,431,607	8,306,410
Supporting services	5,254,100	5,369,535
Community services	829	11,969
Food services	672,157	684,848
Athletics	293,263	285,148
Interest on long-term debt	916,186	909,623
Unallocated depreciation	<u>734,043</u>	<u>766,162</u>
<b>Total expenses</b>	<b><u>16,302,185</u></b>	<b><u>16,333,695</u></b>
<b>Increase (decrease) in net assets before special item</b>	<b>(190,169)</b>	<b>(362,272)</b>
Special item – impairment loss	-	(1,315,924)
Net assets, beginning of year, as restated	<u>2,397,945</u>	<u>2,207,766</u>
<b>Net assets, end of year</b>	<b><u>\$ 2,207,776</u></b>	<b><u>\$ 529,570</u></b>

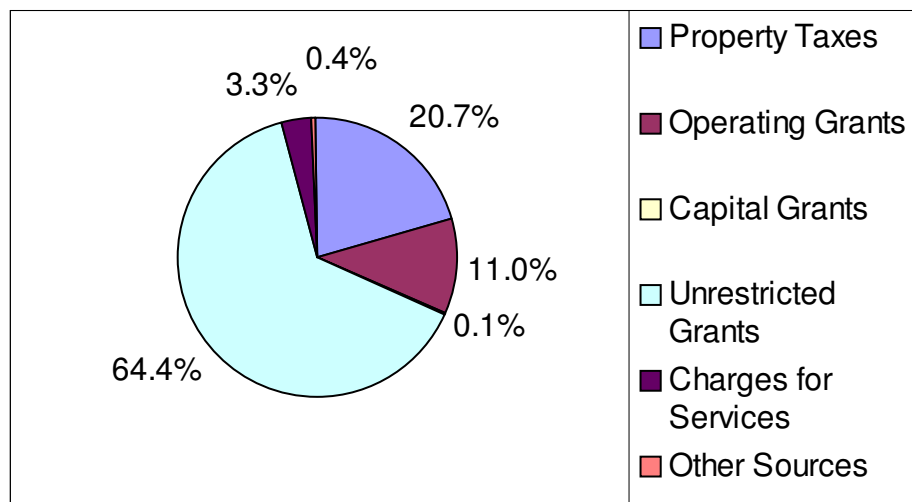
**Governmental activities.** Net assets decreased by \$1,678,196. Key elements of this decrease are as follows:

- Impairment loss recognized on closing of Trufant Elementary.
- Cuts in state funding led to a decrease in revenue of certain instructional programs.

## Expenses and Program Revenues – Government-wide



## Revenues by Source – Government-wide



## Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$273,482, while the total fund balance was \$655,362. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved undesignated fund balance and total fund balance represent 2.0 and 7.7 percent, respectively, of total general fund expenditures and transfers out.

The fund balance of the District's general fund decreased by \$732,797 during the current fiscal year. The largest revenue source in this fund is state revenue which includes primarily state aid. Expenditures consist primarily of costs associated with instruction and related supporting activities.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets were relatively minor and related primarily to changes to the student foundation allowance. The one large variation was in capital outlay expenditures for the general fund. No dollars were budgeted for this expenditure, while in actuality the 2006 installment purchase agreement for new computers had to be recorded as a capital expenditure.

### **Capital Asset and Debt Administration**

**Capital assets** – The District's investment in capital assets for its governmental activities as of June 30, 2006 amounted to \$18,006,343 (net of accumulated depreciation). This investment in capital assets included land, buildings, vehicles and equipment.

Capital assets at fiscal year included the following:

<b>Lakeview Community Schools' Capital Assets</b>		
(net of depreciation)		
June 30, 2006		
	<u><b>2005</b></u>	<u><b>2006</b></u>
Land	\$ 393,160	\$ 393,160
Buildings and improvements	18,926,089	17,192,190
Machinery and equipment	373,694	284,575
Vehicles	<u>202,730</u>	<u>136,418</u>
<b>Total</b>	<u><b>\$19,895,673</b></u>	<u><b>\$18,006,343</b></u>

Additional information on the District's capital assets can be found in Note 5 on pages 25 and 26 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total long-term debt outstanding of \$18,853,535.

The District's total debt decreased by \$945,511 during the current fiscal year, with the addition of a capital lease.

Additional information on the District's long-term debt can be found in Note 9 on pages 26-28 of this report.

## **Factors Bearing on the District's Future**

The following factors were considered in preparing the District's budget for the 2006-2007 fiscal year:

- A declining pupil count was used because of the County's economic and job loss situation.
- A state foundation grant of \$7,075 per student based on state revenue projections.
- Federal revenue and expenditures projections were done on a grant-by-grant basis.
- Wage, retirement and insurance costs were budgeted according to negotiated contracts.

## **Requests for Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Director of Business Operations  
Lakeview Community Schools  
123 Fifth Street  
Lakeview, MI 48850  
(989) 352-6226  
[dpope@lakeviewschools.net](mailto:dpope@lakeviewschools.net)

# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Net Assets

June 30, 2006

	<b><u>Governmental Activities</u></b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 1,683,984
Investments	186,167
Receivables:	
Accounts	9,933
Due from other governmental units	2,137,400
Inventories	47,716
Prepaid items	4,000
Total current assets	<u>4,069,200</u>
Noncurrent assets:	
Land	393,160
Capital assets, depreciable	29,680,794
Less accumulated depreciation	<u>(12,067,611)</u>
Total noncurrent assets	<u>18,006,343</u>
<b>Total assets</b>	<b><u>22,075,543</u></b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	64,524
Accrued expenses	1,000,411
Due to other governmental units	46,263
Unearned revenue	31,240
Notes payable	1,550,000
Current portion of compensated absences/early retirement incentives	112,074
Current portion of long-term debt	949,764
Total current liabilities	<u>3,754,276</u>
Noncurrent liabilities:	
Noncurrent portion of compensated absences/early retirement incentives	296,050
Noncurrent portion of long-term debt	<u>17,495,647</u>
Total noncurrent liabilities	<u>17,791,697</u>
<b>Total liabilities</b>	<b><u>21,545,973</u></b>
<b>Net assets</b>	
Invested in capital assets, net of related debt	(439,068)
Restricted for debt service	470,763
Unrestricted	<u>497,875</u>
<b>Total net assets</b>	<b><u>\$ 529,570</u></b>

The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Activities For the Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction	\$ 8,306,410	\$ 32,589	\$ 1,287,121	\$ -	\$ (6,986,700)
Supporting services	5,369,535	95,436	82,822	15,867	(5,175,410)
Community services	11,969	-	9,269	-	(2,700)
Food services	684,848	272,566	375,035	-	(37,247)
Athletics	285,148	131,200	-	-	(153,948)
Interest on long-term debt	909,623	-	3,463	-	(906,160)
Unallocated depreciation	766,162	-	-	-	(766,162)
Total governmental activities	<u>\$ 16,333,695</u>	<u>\$ 531,791</u>	<u>\$ 1,757,710</u>	<u>\$ 15,867</u>	<u>(14,028,327)</u>
General revenues:					
Property taxes - operations					1,523,154
Property taxes - debt service					1,783,344
Grants and contributions not restricted to specific programs					10,290,250
Universal service funds					17,227
Gain on disposal of capital assets					5,974
Unrestricted investment earnings					46,106
Special item - impairment loss					<u>(1,315,924)</u>
Total general revenues and special item					<u>12,350,131</u>
Change in net assets					(1,678,196)
Net assets, beginning of year, as restated					<u>2,207,766</u>
Net assets, end of year					<u>\$ 529,570</u>

The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## Balance Sheet Governmental Funds June 30, 2006

	<u>General</u>	<u>Non- Major Funds</u>	<u>Total</u>
<b>Assets</b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 944,826	\$ 739,158	\$ 1,683,984
Investments	186,167	-	186,167
Accounts receivable	8,020	1,913	9,933
Due from other governmental units	1,996,865	140,535	2,137,400
Inventory	39,557	8,159	47,716
Prepaid items	4,000	-	4,000
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total Assets</b>	<u><u>\$ 3,179,435</u></u>	<u><u>\$ 889,765</u></u>	<u><u>\$ 4,069,200</u></u>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities</b>			
Accounts payable	\$ 45,860	\$ 18,664	\$ 64,524
Accrued expenditures	815,555	11,645	827,200
Due to other governments	39,684	6,579	46,263
Deferred revenue	62,974	93,693	156,667
Notes payable	1,550,000	-	1,550,000
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total liabilities</b>	<u><u>2,514,073</u></u>	<u><u>130,581</u></u>	<u><u>2,644,654</u></u>
<b>Fund balance</b>			
Reserved for:			
Inventory	39,557	8,159	47,716
Prepaid items	4,000	-	4,000
Unreserved:			
Designated for early retirement	182,942	-	182,942
Designated for early retirement reported in special revenue funds		9,110	9,110
Designated for vacation and sick leave	165,381		165,381
Undesignated reported in special revenue funds	-	97,941	97,941
Undesignated reported in debt service funds	-	643,974	643,974
Undesignated	273,482	-	273,482
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Total fund balance</b>	<u><u>665,362</u></u>	<u><u>759,184</u></u>	<u><u>1,424,546</u></u>
<b>Total Liabilities and Fund Balance</b>	<u><u>\$ 3,179,435</u></u>	<u><u>\$ 889,765</u></u>	<u><u>\$ 4,069,200</u></u>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2006**

Fund balances - total governmental funds	\$ 1,424,546
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Amounts reported for governmental activities in the statement of net assets are different because:

Long-term receivables are reported as an asset and revenue when earned on the statement of net assets while the governmental funds report these balances as an asset and deferred revenue until the availability criterion for revenue recognition is met.

Add - deferred long-term receivables	125,427
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	30,073,954
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Deduct - accumulated depreciation	(12,067,611)
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds payable	(18,445,411)
------------------------	--------------

Deduct - accrued interest on bonds payable	(173,211)
--	-----------

Deduct - compensated absences/early retirement	(408,124)
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<b>Net assets of governmental activities</b>	<b><u>\$ 529,570</u></b>
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The accompanying notes are an integral part of these financial statements.



# LAKEVIEW COMMUNITY SCHOOLS

## Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2006

	<u>General</u>	<u>Non- Major Funds</u>	<u>Total</u>
<b>Revenues</b>			
Local sources	\$ 1,830,394	\$ 2,227,312	\$ 4,057,706
State sources	10,834,386	290,935	11,125,321
Federal sources	479,744	326,225	805,969
	<u>13,144,524</u>	<u>2,844,472</u>	<u>15,988,996</u>
<b>Expenditures</b>			
Current:			
Instruction	8,211,284	222,428	8,433,712
Supporting services	5,436,760	1,535	5,438,295
Community services	1,123	10,933	12,056
School administration	-	13,190	13,190
Food services	-	689,403	689,403
Athletics	-	298,988	298,988
Debt service:			
Principal	32,574	872,680	905,254
Interest	32,397	877,420	909,817
Taxes abated	-	6,579	6,579
Capital outlay	99,292	-	99,292
	<u>13,813,430</u>	<u>2,993,156</u>	<u>16,806,586</u>
Total expenditures	<u>13,813,430</u>	<u>2,993,156</u>	<u>16,806,586</u>
Revenue (under) expenditures	<u>(668,906)</u>	<u>(148,684)</u>	<u>(817,590)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	170,457	170,457
Transfers out	(170,457)	-	(170,457)
Proceeds from the sale of capital assets	7,274	-	7,274
Capital lease proceeds	99,292	-	99,292
	<u>(63,891)</u>	<u>170,457</u>	<u>106,566</u>
Total other financing sources (uses)	<u>(63,891)</u>	<u>170,457</u>	<u>106,566</u>
Net changes in fund balances	(732,797)	21,773	(711,024)
Fund balances, beginning of year	<u>1,398,159</u>	<u>737,411</u>	<u>2,135,570</u>
<b>Fund balances, end of year</b>	<u><u>\$ 665,362</u></u>	<u><u>\$ 759,184</u></u>	<u><u>\$ 1,424,546</u></u>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Change in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

Net change in fund balances - total governmental funds \$ (711,024)

Amounts reported for *governmental activities* in the statement of activities are different because:

Long-term receivables are reported as revenue when earned on the statement of activities while the governmental funds report these balances as revenue when the availability criterion for revenue recognition is met.

Deduct - change in deferred long-term receivables (23,547)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay 194,056  
Deduct - depreciation expense (766,162)  
Deduct - proceeds from the sale of capital assets (7,274)  
Add - gain on sale of capital assets 5,974

Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but a reduction in long-term debt on the statement of net assets.

Deduct - capital lease proceeds (99,292)  
Add - principal payments on long-term debt 905,254

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - special item - impairment of capital assets (1,315,924)  
Add - decrease in accrued interest payable on bonds 194  
Add - decrease in the accrual for retirement incentives 88,202  
Add - decrease in the accrual for compensated absences 51,347

**Change in net assets of governmental activities \$ (1,678,196)**

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Statement of Revenue, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	
<b>Revenue</b>				
Local sources	\$ 1,628,350	\$ 1,831,851	\$ 1,830,394	\$ (1,457)
State sources	10,878,682	10,865,626	10,834,386	(31,240)
Federal sources	512,386	500,320	479,744	(20,576)
Total revenue	13,019,418	13,197,797	13,144,524	(53,273)
<b>Expenditures</b>				
Current:				
Instruction	7,930,643	8,244,109	8,211,284	32,825
Supporting services	5,401,461	5,470,437	5,436,760	33,677
Community services	5,090	2,214	1,123	1,091
Debt service				
Principal	20,000	32,574	32,574	-
Interest	31,070	32,923	32,397	526
Capital outlay	-	-	99,292	(99,292)
Total expenditures	13,388,264	13,782,257	13,813,430	(31,173)
Revenue over (under) expenditures	(368,846)	(584,460)	(668,906)	(84,446)
<b>Other financing sources (uses)</b>				
Transfers out	(165,457)	(170,457)	(170,457)	-
Proceeds from the sale of capital assets	1,000	7,274	7,274	-
Capital lease proceeds	-	-	99,292	99,292
Total other financing sources (uses)	(164,457)	(163,183)	(63,891)	99,292
Net changes in fund balance	(533,303)	(747,643)	(732,797)	14,846
Fund balance, beginning of year	1,398,159	1,398,159	1,398,159	-
<b>Fund balance, end of year</b>	<b>\$ 864,856</b>	<b>\$ 650,516</b>	<b>\$ 665,362</b>	<b>\$ 14,846</b>

The accompanying notes are an integral part of these financial statements.

**LAKEVIEW COMMUNITY SCHOOLS**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2006**

**Assets**

Cash and cash equivalents	<u><u>\$ 328,355</u></u>
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**Liabilities**

Due to student groups	\$ 126,145
Withholdings payable	<u>202,210</u>

<b>Total Liabilities</b>	<u><u>\$ 328,355</u></u>
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The accompanying notes are an integral part of these financial statements.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies of the Lakeview Community Schools (the “District”) consistently applied in the preparation of the accompanying financial statements follows.

#### ***The Reporting Entity***

As required by generally accepted accounting principles, these financial statements present the reporting entity of the Lakeview Community Schools. The criteria identified in GASB Statements 14 and 39, including financial accountability, have been utilized in identifying the District’s reporting entity which includes no component units.

#### ***Government-wide and Fund Financial Statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no *business-type activities* during the year ended June 30, 2006.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

Major individual governmental funds are reported as separate columns in the fund financial statements.

#### ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The agency fund follows the accrual basis of accounting, but does not have a measurement focus.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for expenditure-driven grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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Property taxes, expenditure-driven grant revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the district.

The District reports the following major governmental fund:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

The *special revenue funds* account for assets which are restricted for specific purposes.

The *debt service funds* account for the accumulation of resources which are restricted for the payment of principal and interest on bonds.

The *capital projects fund* accounts for the accumulation and disbursement of funds for construction projects.

The *agency funds* account for resources held on the behalf of other individuals and governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes, unrestricted grants and interest income.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

The effect of interfund activity has been eliminated from the government-wide financial statements.

### **Budgets and Budgetary Accounting**

Budgets are adopted for general and special revenue funds as required by state law and are adopted on a basis consistent with generally accepted accounting principles (GAAP). The District considers the debt service payment schedule to be an adequate budgetary control. The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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4. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
5. Adoption and amendments of all budgets used by the School are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations at the function level. The appropriations resolutions are based on the projected expenditures budget of the department heads of the School. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the School Board.

### **Encumbrances**

The School does not formally record encumbrances in the accounting records during the year as a normal practice. Appropriations lapse at year-end and amounts are reappropriated for expenditures to be incurred in the next fiscal year.

### **Property Taxes**

Property taxes are recognized as revenue in the General and Debt Service funds on a levy year basis. The 2005 levy amounts are recognized as current property tax revenue to the extent that they are collected during the year or within sixty days after year end. Collections of delinquent taxes in subsequent years are recognized as property tax revenues in the year collected. Property taxes are levied December 1 on the assessed valuation of property located in the School as of the preceding December 31, the lien date. Assessed values are established annually by the various governmental units within the School and are equalized by the State of Michigan.

### **Cash and Cash Equivalents**

The School considers all highly liquid investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

### **Investments**

The School investments consist of mutual funds and certificates of deposit with local and regional financial institutions. Investments are stated at fair value.

State statutes authorize the District to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Receivables**

The School follows the practice of recording as receivables revenues that have been earned but not yet received.

### **Inventories**

Inventories consist of office and other supplies. Inventories are stated at cost (first-in, first-out).

### **Prepaid items**

Payments to vendors for services that will benefit periods beyond a fund's fiscal year-end are recorded as prepaid items in both government-wide and fund financial statements.

### **Capital Assets**

Capital assets, which include property and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Capital assets of the primary government are depreciated using the straight line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings and improvements	20-45
Machinery and equipment	5-20
Vehicles	8

### **Insurance Refunds**

The School receives surplus distributions from SET/SEG Property/Casualty Pool for insurance premiums paid into the Pool in prior years. The receipt of premium refunds for prior years are recorded as revenue from Local Sources. If the School were to receive premium refunds for their current fiscal year, these refunds would offset the premium expense in the year received.

### **Salaries Payable and Accrued Employee Benefits**

A liability is recorded at June 30 for those amounts owed to teachers and other employees of the School who do not work during the summer when school is not in session but have elected to have their salaries paid over an entire year. This has the effect of properly charging their salaries to expenditures in the fiscal year in which their services are received, even though they are not paid until July and August of the following fiscal year.



# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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The liability for accrued retirement and the employer share of FICA related to the salaries payable has been recorded as has the liability for employee health insurances for the months of July and August. The School pays these insurances for this period as a part of the compensation for services rendered in the preceding school year.

### **Vested Termination Benefits**

Most employees of the School are compensated for leaves of absences chargeable to sick days. Each school year, the covered employees are credited with a number of sick days and any unused portion of such allowances can accumulate. Upon retirement, those employees who meet certain age and years of service requirements will be paid for a portion of sick days accumulated to a maximum number of days and at a rate determined by their job category.

The liability for the sick leave has been computed using the vesting method in accordance with Governmental Accounting Standards Board Statement No. 16. This liability is shown on the statement of net assets.

### **Reserves and Designations of Fund Balance/Restricted Net Assets**

Reservations of fund balance are established to identify (1) third party claims against resources of the entity that have not materialized as liabilities at the balance sheet date, or (2) the existence of assets that, because of their nonmonetary nature or lack of liquidity, represent financial resources not available for current appropriation or expenditure, or (3) the existence of assets that are legally restricted to a future use.

Designations of fund balance are established to identify amounts set aside by the Board of Education for future expenditures.

Restricted net assets represent assets which are legally restricted by outside parties or enabling legislation.

### **Durant Related Issues**

Under Public Act 142 of 1997, enacted in November 1997 as part of the *Durant* Resolution Package, school districts and intermediate school districts were offered settlement amounts to settle, compromise, and resolve, in their entirety, any potential claims they may have asserted for violations of section 29, Article IX, of the constitution through September 30, 1997, which were similar to the claims asserted by the plaintiffs in the *Durant v. State of Michigan* case. To be eligible to receive its offer of settlement amount, the non-plaintiff district needed to adopt and submit to the State Treasurer a waiver resolution, in the form set forth in Public Act 142 of 1997, waiving any potential claims through September 30, 1997.

Settlement amounts were based on the formula used to determine amounts owed to *Durant* plaintiffs. Half the settlement amount was to be received in ten annual payments; *the other half was received in a lump sum by participating in a special bonding program offered through the Michigan Municipal Bond Authority (MMBA)* or in fifteen annual payments. Lakeview Community Schools elected to participate in the special bonding program.

Districts electing to bond under the Durant settlement received a lump sum amount (bond proceeds) on November 24, 1998. This created a liability which will be reduced each year with an annual state appropriation made for debt service on the bonds. The annual State of Michigan appropriation is the only revenue source for making the annual debt service payment on the bonds. If the legislature fails to appropriate the funds, the district is under no obligation for payment. Additionally, the bond documentation states specifically that the Bonds shall not be in any way a debt or liability of the State of Michigan. This liability has been booked on the statement of net assets. Annual appropriations from the

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

State are recorded in the Durant Debt Service Fund along with the payment of the interest and principal of the bonds.

The original bond proceeds were recorded in the Durant Construction Fund and expended for purposes specified in Section 1351a of the Revised School Code.

The remaining 50% of the settlement which is being received over ten years, beginning April 1999, is recorded in the General Fund as Unrestricted State School Aid. Use of these funds is restricted to specified purposes.

### Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

### Interfund Transactions

During the course of normal operations, the District has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Operating subsidies are also recorded as transfers. The amounts recorded as subsidies or advances are determined by the District.

## **2. STATE OF MICHIGAN SCHOOL AID**

The District reports State of Michigan school aid in the fiscal year in which the District is entitled to the revenue as provided by State of Michigan School aid appropriation acts. State funding represented 83% of the District's general fund revenue during the 2006 fiscal year.

## **3. EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS**

During the year ended June 30, 2006 the District incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Elementary instruction	\$2,701,170	\$2,712,417	\$(11,247)
Middle school	1,390,859	1,397,695	(6,836)
Other services	152,908	188,450	(35,542)
Capital outlay	-	99,292	(99,292)
Food Service Fund			
Supporting Services	684,273	689,403	(5,130)

General fund capital outlay expenditures were fully offset by proceeds from capital leases, which were inadvertently not budgeted.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### 4. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to cash and investments are as follows:

	<b>Governmental Activities</b>	<b>Fiduciary Activities</b>	<b>Total</b>
Cash and cash equivalents	\$1,683,984	\$328,355	\$2,012,339
Investments	186,167	-	186,167
<b>Total deposits and investments</b>	<b>\$1,870,151</b>	<b>\$328,355</b>	<b>\$2,198,506</b>

Cash and cash equivalents are comprised of deposits in three (3) financial institutions located in Michigan. State policy limits the District's investing options to financial institutions located in Michigan. All accounts are in the name of the District and a specific fund or common account. They are recorded in District records at fair value.

The District chooses to disclose its investments by specifically identifying each. As of year end, the District had the following deposits and investments:

<b><u>Investment</u></b>	<b><u>Maturity</u></b>	<b><u>Fair Value</u></b>	<b><u>Rating</u></b>
Cash management/mutual funds:			
MILAF Plus – Cash Management Series	N/A	\$ 31,218	AAAm
MILAF Plus – Max Series	N/A	154,949	AAAm
		<u>\$ 186,167</u>	

#### ***Investment and deposit risk***

**Interest Rate Risk.** State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. None of the District's deposits or investments had fixed maturities at year end.

**Credit Risk.** State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of District's specific financial institutions, qualified mutual funds, and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The investment policy does not have specific limits in excess of state law on investment credit risk. The ratings for each investment are identified above for investments held at year end.

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The District minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the District's investment policy. As of year end, \$2,043,278 of the District's bank balance of \$2,272,892 was exposed to custodial credit risk because it was uninsured and uncollateralized.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

*Custodial Credit Risk – Investments.* For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the District's investment policy. Of the above mutual fund investments the District's custodial credit risk exposure can not be determined because the mutual funds do not consist of specifically identifiable securities.

*Concentration of Credit Risk.* State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 of the summary of significant accounting policies. The District's investment policy does not have specific limits in excess of state law on concentration of credit risk. All investments held at year end are reported above.

### 5. CAPITAL ASSETS

A summary of changes in capital assets activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Dispositions</u>	<u>Balance June 30, 2006</u>
<b>Governmental activities</b>				
Nondepreciable capital assets:				
Land	\$ 393,160	\$ -	\$ -	\$ 393,160
Depreciable capital assets:				
Buildings and improvements	28,389,784	18,985	(1,697,086)	26,711,683
Machinery and equipment	1,386,918	119,183	-	1,506,101
Vehicles	1,443,931	55,888	(36,809)	1,463,010
Total depreciable capital assets	31,220,633	194,056	(1,733,895)	29,680,794
Accumulated depreciation:				
Buildings and improvements	(9,463,695)	(436,960)	381,162	(9,519,493)
Machinery and equipment	(1,013,224)	(208,302)	-	(1,221,526)
Vehicles	(1,241,201)	(120,900)	35,509	(1,326,592)
Total accumulated depreciation	(11,718,120)	(766,162)	416,671	(12,067,611)
Total capital assets being depreciated, net	19,502,513	(572,106)	(1,317,224)	17,613,183
<b>Governmental activities capital assets, net</b>	<b>\$19,895,673</b>	<b>\$ (572,106)</b>	<b>\$(1,317,224)</b>	<b>\$18,006,343</b>

Depreciation expense was reported as unallocated on the statement of activities.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### 6. IMPAIRMENT LOSS

After the 2004-2005 school year, the District closed Trufant Elementary and converted the building into a storage facility. In accordance with GASB Statement 42, *Accounting and Financial Reporting for Impairment for Capital Assets and for Insurance Recoveries*, an impairment loss of \$1,315,924 has been recognized in the statement of activities to adjust the carrying value of the Trufant building to the deflated depreciated fair value of a similar structure in the Lakeview area.

### 7. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances primarily reflect balances utilized to facilitate appropriate cash flow for operations.

Transfers primarily reflect subsidies allocated from the General Fund.

	<u>In</u>	<u>Out</u>
<b>Interfund Transfers</b>		
General Fund	\$ -	\$170,457
Nonmajor Funds:		
Athletics special revenue	<u>170,457</u>	<u>-</u>
<b>Total</b>	<b><u>\$170,457</u></b>	<b><u>\$170,457</u></b>

### 8. SHORT-TERM DEBT

The following is a summary of short-term debt transactions of the School for the year ended June 30, 2006:

	<u>Short-term Debt</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2006</u>
School bond/notes maturing (8/18/06)				
with an interest rate of 2.80%				
(operating cash flow)	\$1,600,000	\$1,550,000	\$(1,600,000)	\$1,550,000

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

### 9. LONG-TERM DEBT

The following is a summary of long-term debt transactions of the School for the year ended June 30, 2006:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
1996 School Building and Site Bonds due in amounts ranging from \$125,000 through \$355,000 plus interest at 4.30 - 5.60% through 2007	\$ 710,000	\$ -	\$ (355,000)	\$ 355,000	\$ 355,000
1998 Refunding Bonds due in amounts ranging from \$0 through \$525,000 plus interest at 3.70 - 4.65% through 2022 (unlimited tax, general obligation)	6,290,000	-	-	6,290,000	-
2001 Refunding Bonds due in amounts ranging from \$235,000 through \$385,000 plus interest at 4.12 - 4.25% through 2013	2,440,000	-	(240,000)	2,200,000	270,000
2001 School Building and Site Bonds due in amounts ranging from \$70,000 through \$300,000 plus interest at 4.00 - 4.75% through 2022	4,645,000	-	(245,000)	4,400,000	255,000
1999 Refunding Bonds due in amounts ranging from \$20,000 through \$415,000 plus interest at 3.10 - 4.88% through 2022 (unlimited tax, general obligation)	5,045,000	-	(25,000)	5,020,000	30,000
1998 School Improvement Bonds (Durant Settlement) due in amounts ranging from \$6,996 through \$16,264 plus interest at 4.76% through 2013	101,373	-	(7,680)	93,693	8,044
2000 Bus Loan due in amounts ranging from \$5,000 through \$20,000 plus interest at 5.00 - 8.00% through 2006	20,000	-	(20,000)	-	-
2006 Computer Installment Purchase agreement secured by the equipment under lease, payable in monthly installments of \$3,067 including interest at 7.028% through 2009	-	99,292	(12,574)	86,718	31,720
Subtotal installment debt	19,251,373	99,292	(905,254)	18,445,411	949,764

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2006</b>	<b>Due Within One Year</b>
Early retirement incentive	\$ 280,254	\$ -	\$ (88,202)	\$ 192,052	\$ 87,357
Compensated absences	267,419	-	(51,347)	216,072	24,717
<b>Total long-term debt</b>	<b>\$19,799,046</b>	<b>\$99,292</b>	<b>\$(1,044,803)</b>	<b>\$18,853,535</b>	<b>\$1,061,838</b>

Following is a summary of future bond and loan principal maturities and interest requirements:

	<b>Principal</b>	<b>Interest</b>
2007	\$ 949,764	\$ 836,883
2008	992,451	788,364
2009	1,009,807	746,078
2010	1,039,251	704,231
2011	1,103,348	672,724
2012 – 2016	5,960,790	2,558,272
2017 – 2021	6,150,000	1,166,050
2022	1,240,000	58,894
<b>Total</b>	<b>\$18,445,411</b>	<b>\$7,531,496</b>

Compensated absences and the early retirement incentives are expected to be liquidated by the general and food service funds.

In prior years, Lakeview Community Schools advance refunded certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. The advance refunding resulted in a defeasance of the bonds. As a result, the trust account assets and the liability for the defeased bonds are not included in the Lakeview Community Schools financial statements. At June 30, 2006, \$10,915,000 of bonds outstanding are considered defeased.

### 10. PUBLIC ENTITY RISK (INSURANCE) POOL – SELF-INSURANCE PLAN

Lakeview Community Schools participates in a public entity risk (insurance) pool with other school districts in the SET-SEG Property/Casualty Pool, Inc. (a nonprofit corporation). This is a self-insurance fund which provides members with loss protection for property and casualty damages. The Pool was created on May 23, 1985 and organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self-insurance pool. There have been no significant reductions in coverage and settlements have not exceeded insurance coverage during the past 3 years.

The School District made a contribution of \$80,144 to the Pool for the 2006 fiscal year. A member's contribution to the Pool in excess of its share of claim losses, expenses, and other costs may be refunded as determined by the Board of Directors. Lakeview Community Schools received no premium refunds for the fiscal year ended June 30, 2006.

The Pool does not maintain separate funds for members and consequently the School District's share of the total assets and total equity is unknown. Audited financial statements of the fund are available.

# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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### **Risk Management**

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the School carried commercial insurance and participated in a public entity risk pool. The School has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

## **11. RETIREMENT PLAN**

### **Plan Description**

The School contributes to the Michigan Public School Employees Retirement System (MPERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of Michigan Department of Management and Budget, Office of Retirement Systems. MPERS provides retirement, survivor and disability benefits to plan members and beneficiaries. Benefit provisions are established and may be amended by state statute.

The Office of Retirement Systems issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, 7150 Harris Drive, P.O. Box 30026, Lansing, Michigan, 48909 or by calling (517) 322-6000.

### **Funding Policy**

Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute at a permanently fixed rate of 3.9% of gross wages. Members first hired January 1, 1990 or later contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. Basic Plan members make no contributions. The School is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefits on a cash disbursement basis.

The rate from July to September was 14.87% and was 16.43% from October through June of covered payroll. The contribution requirements of plan members and the School are established by Michigan State statute and may be amended only by action of the State Legislature. The School's contributions to MPERS for the years ended June 30, 2006, 2005 and 2004 were \$1,293,251, \$1,191,547, and \$1,065,964, respectively, equal to the required contributions for each year.

### **Other Post-Employment Benefits**

Retirees have the option of health coverage which is funded on a cash disbursement basis by the employers. The State of Michigan has contracted to provide the comprehensive group medical, hearing, dental and vision coverage for retirees and beneficiaries. All health care benefits are on a self-funded basis. A significant portion of the premium is paid by MPERS with the balance deducted from the monthly pension.

Pension recipients are eligible for fully paid Master Health Plan coverage and 90% paid Dental Plan, Vision Plan and Hearing Plan coverage with the following exceptions:

1. Retirees not yet eligible for Medicare coverage pay an amount equal to the Medicare Part B premiums.



# LAKEVIEW COMMUNITY SCHOOLS

## NOTES TO FINANCIAL STATEMENTS

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2. Retirees with less than 30 years of service, who terminate employment after October 31, 1998 with the vested deferred benefits, are eligible for partially State of Michigan paid health benefit coverage (no payment if less than 21 years of service).

### 12. CONTINGENCIES

#### **Federal Grant Programs**

The School participates in federally assisted grant programs, which are subject to program compliance audits by the grantor or its representatives. Such audits of these programs may be performed at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the School expects such amounts, if any, not to be material.

### 13. SUBSEQUENT EVENT

In July, 2006, the District issued general obligation, tax-free bonds in the amount of \$2,020,000. The bonds were issued for the purpose of purchasing computers and buses and for making general District improvements.

### 14. PRIOR PERIOD ADJUSTMENT

Beginning net assets of governmental activities were increased by \$148,974 to record a long-term receivable from the State of Michigan related to the Durant Settlement of 1998. This receivable, which was inadvertently not reported in previous fiscal years, is deferred in the fund financial statements, as it is not available to liquidate current liabilities at year end. Accordingly, no restatement was required at the fund level.

\* \* \* \* \*

**LAKEVIEW COMMUNITY SCHOOLS**  
**General Fund**  
**Detail Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
Local sources:				
Property taxes	\$ 1,407,536	\$ 1,526,810	\$ 1,523,154	\$ (3,656)
Tuition	2,000	500	-	(500)
Earnings on investments	20,000	40,000	42,318	2,318
Payments received from other governmental units:				
Special Education Medicaid - MAISD	40,000	70,017	70,017	-
Other - MAISD	41,669	53,571	53,571	-
Transportation	20,000	15,000	15,221	221
Special education tuition	23,000	11,839	11,839	-
USF funding	40,000	25,000	17,227	(7,773)
Miscellaneous	34,145	89,114	97,047	7,933
<b>Total local sources</b>	<b>1,628,350</b>	<b>1,831,851</b>	<b>1,830,394</b>	<b>(1,457)</b>
State sources:				
State Aid - unrestricted	10,165,685	10,083,282	10,083,282	-
At risk	310,276	350,233	318,993	(31,240)
Special education	402,721	432,111	432,111	-
<b>Total state sources</b>	<b>10,878,682</b>	<b>10,865,626</b>	<b>10,834,386</b>	<b>(31,240)</b>
Federal sources:				
Federal aid received through the state -				
E.C.I.A. Title I - Regular	426,234	328,868	328,868	-
E.C.I.A. Title I - Carryover	3,143	7,223	7,223	-
Title I Schoowide Plan	-	9,000	9,000	-
Eisenhower grant	59,928	129,901	110,526	(19,375)
Other	14,932	17,610	16,409	(1,201)
Federal aid received through intermediate - school districts	8,149	7,718	7,718	-
<b>Total federal sources</b>	<b>512,386</b>	<b>500,320</b>	<b>479,744</b>	<b>(20,576)</b>
<b>Total revenue</b>	<b>13,019,418</b>	<b>13,197,797</b>	<b>13,144,524</b>	<b>(53,273)</b>

(Continued)

**LAKEVIEW COMMUNITY SCHOOLS**  
**General Fund**  
**Detail Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Continued**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
<b>Expenditures</b>				<b>(Negative)</b>
Instructional:				
Basic programs:				
Elementary	\$ 2,529,901	\$ 2,701,170	\$ 2,712,417	\$ (11,247)
Middle School	1,409,061	1,390,859	1,397,695	(6,836)
High School	2,153,349	2,247,182	2,246,883	299
Total basic programs	6,092,311	6,339,211	6,356,995	(17,784)
Added needs:				
Special Education	1,208,116	1,241,241	1,241,237	4
Compensatory Education	630,216	663,572	612,967	50,605
Vocational Education	-	85	85	-
Total added needs	1,838,332	1,904,898	1,854,289	50,609
<b>Total instructional</b>	<b>7,930,643</b>	<b>8,244,109</b>	<b>8,211,284</b>	<b>32,825</b>
Supporting services:				
Pupil services:				
Guidance services	408,078	423,785	422,593	1,192
Health services	61,383	41,982	41,467	515
Speech services	203,026	139,200	138,972	228
Social work services	163,356	167,621	167,536	85
Total pupil services	835,843	772,588	770,568	2,020
Instructional staff:				
Improvement of instruction	144,863	137,427	120,276	17,151
Library	198,621	209,821	208,524	1,297
Total instructional staff	343,484	347,248	328,800	18,448
General administration:				
Board of Education	90,809	97,693	86,557	11,136
Executive administration	270,535	250,389	250,164	225
Fiscal services	180,781	177,983	176,136	1,847
Total general administration	542,125	526,065	512,857	13,208
School administration:				
Elementary and Secondary Administration	1,046,564	1,055,306	1,049,156	6,150
Operation and maintenance	1,355,025	1,327,535	1,316,340	11,195

(Continued)

**LAKEVIEW COMMUNITY SCHOOLS**  
**General Fund**  
**Detail Schedule of Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual - Continued**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	
Pupil transportation	\$ 776,168	\$ 796,448	\$ 787,622	\$ 8,826
Support staff training	69,938	38,703	30,762	7,941
Information services	159,647	195,121	194,689	432
Other services	177,833	152,908	188,450	(35,542)
Payments to other schools	94,834	258,515	257,516	999
<b>Total supporting services</b>	<b>5,401,461</b>	<b>5,470,437</b>	<b>5,436,760</b>	<b>33,677</b>
Community services:				
Community activities	4,090	2,126	1,036	1,090
Homeless services	1,000	88	87	1
<b>Total community services</b>	<b>5,090</b>	<b>2,214</b>	<b>1,123</b>	<b>1,091</b>
Debt service:				
Principal	20,000	32,574	32,574	-
Interest	31,070	32,923	32,397	526
<b>Total debt service</b>	<b>51,070</b>	<b>65,497</b>	<b>64,971</b>	<b>526</b>
Capital outlay	-	-	99,292	(99,292)
<b>Total expenditures</b>	<b>13,388,264</b>	<b>13,782,257</b>	<b>13,813,430</b>	<b>(31,173)</b>
<b>Revenue over (under) expenditures</b>	<b>(368,846)</b>	<b>(584,460)</b>	<b>(668,906)</b>	<b>(84,446)</b>
<b>Other financing sources (uses)</b>				
Transfers out	(165,457)	(170,457)	(170,457)	-
Proceeds from the sale of capital assets	1,000	7,274	7,274	-
Capital lease proceeds	-	-	99,292	99,292
<b>Total other financing sources (uses)</b>	<b>(164,457)</b>	<b>(163,183)</b>	<b>(63,891)</b>	<b>99,292</b>
<b>Net changes in fund balance</b>	<b>(533,303)</b>	<b>(747,643)</b>	<b>(732,797)</b>	<b>14,846</b>
Fund balance, beginning of year	1,398,159	1,398,159	1,398,159	-
<b>Fund balance, end of year</b>	<b>\$ 864,856</b>	<b>\$ 650,516</b>	<b>\$ 665,362</b>	<b>\$ 14,846</b>

(Concluded)

# LAKEVIEW COMMUNITY SCHOOLS

## Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

		Special Revenue		
		Athletics	Food Service	Preschool
<b>Assets</b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 4,117	\$ 46,825	\$ 37,663	
Accounts receivable	-	1,913	-	
Due from other governmental units	-	4,823	42,019	
Inventory	-	8,159	-	
<b>Total Assets</b>	<b>\$ 4,117</b>	<b>\$ 61,720</b>	<b>\$ 79,682</b>	
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ -	\$ 17,087	\$ 1,577	
Accrued expenditures	-	277	11,368	
Due to other governments	-	-	-	
Deferred revenue	-	-	-	
<b>Total liabilities</b>	<b>-</b>	<b>17,364</b>	<b>12,945</b>	
<b>Fund balances</b>				
Reserved for:				
Inventory	-	8,159	-	
Unreserved:				
Designated for early retirement	-	9,110	-	
Unreserved, undesignated	4,117	27,087	66,737	
<b>Total fund balances</b>	<b>4,117</b>	<b>44,356</b>	<b>66,737</b>	
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,117</b>	<b>\$ 61,720</b>	<b>\$ 79,682</b>	

Debt Service Funds						
1996 Debt	1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	Total
\$ 52,328	\$ 199,659	\$ 169,206	\$ -	\$ 86,901	\$ 142,459	\$ 739,158
-	-	-	-	-	-	1,913
-	-	-	93,693	-	-	140,535
-	-	-	-	-	-	8,159
<u>\$ 52,328</u>	<u>\$ 199,659</u>	<u>\$ 169,206</u>	<u>\$ 93,693</u>	<u>\$ 86,901</u>	<u>\$ 142,459</u>	<u>\$ 889,765</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,664
-	-	-	-	-	-	11,645
1,477	1,271	1,094	-	1,357	1,380	6,579
-	-	-	93,693	-	-	93,693
<u>1,477</u>	<u>1,271</u>	<u>1,094</u>	<u>93,693</u>	<u>1,357</u>	<u>1,380</u>	<u>130,581</u>
-	-	-	-	-	-	8,159
-	-	-	-	-	-	9,110
50,851	198,388	168,112	-	85,544	141,079	741,915
<u>50,851</u>	<u>198,388</u>	<u>168,112</u>	<u>-</u>	<u>85,544</u>	<u>141,079</u>	<u>759,184</u>
<u>\$ 52,328</u>	<u>\$ 199,659</u>	<u>\$ 169,206</u>	<u>\$ 93,693</u>	<u>\$ 86,901</u>	<u>\$ 142,459</u>	<u>\$ 889,765</u>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>Special Revenue</b>		
	<b>Athletics</b>	<b>Food Service</b>	<b>Preschool</b>
<b>Revenue</b>			
Local sources	\$ 132,058	\$ 274,163	\$ 16,997
State sources	-	48,792	231,000
Federal sources	-	326,225	-
Total revenue	132,058	649,180	247,997
<b>Expenditures</b>			
Current:			
Instruction	-	-	222,428
Supporting services	-	-	1,535
School administration	-	-	13,190
Community services	-	-	10,933
Food service	-	689,403	-
Athletic activities	298,988	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Taxes abated	-	-	-
Total expenditures	298,988	689,403	248,086
Revenue over (under) expenditures	(166,930)	(40,223)	(89)
<b>Other financing sources (uses)</b>			
Transfers in	170,457	-	-
Net changes in fund balances	3,527	(40,223)	(89)
Fund balances, beginning of year	590	84,579	66,826
<b>Fund balances, end of year</b>	<b>\$ 4,117</b>	<b>\$ 44,356</b>	<b>\$ 66,737</b>

Debt Service Funds						Total
1996 Debt	1998 Debt	1999 Debt	Durant Debt	2001 Refinancing	2001 Voting	
\$ 410,749	\$ 310,735	\$ 273,323	\$ -	\$ 343,269	\$ 466,018	\$ 2,227,312
-	-	-	11,143	-	-	290,935
-	-	-	-	-	-	326,225
410,749	310,735	273,323	11,143	343,269	466,018	2,844,472
-	-	-	-	-	-	222,428
-	-	-	-	-	-	1,535
-	-	-	-	-	-	13,190
-	-	-	-	-	-	10,933
-	-	-	-	-	-	689,403
-	-	-	-	-	-	298,988
355,000	-	25,000	7,680	240,000	245,000	872,680
46,450	279,817	233,747	3,463	103,325	210,618	877,420
1,477	1,271	1,094	-	1,357	1,380	6,579
402,927	281,088	259,841	11,143	344,682	456,998	2,993,156
7,822	29,647	13,482	-	(1,413)	9,020	(148,684)
-	-	-	-	-	-	170,457
7,822	29,647	13,482	-	(1,413)	9,020	21,773
43,029	168,741	154,630	-	86,957	132,059	737,411
<b>\$ 50,851</b>	<b>\$ 198,388</b>	<b>\$ 168,112</b>	<b>\$ -</b>	<b>\$ 85,544</b>	<b>\$ 141,079</b>	<b>\$ 759,184</b>



**LAKEVIEW COMMUNITY SCHOOLS**  
**Athletics Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenues</b>				
Local sources:				
Gate receipts	\$ 67,751	\$ 88,159	\$ 88,206	\$ 47
Other	14,615	43,845	43,852	7
Total revenues	82,366	132,004	132,058	54
<b>Expenditures</b>				
Supporting services	247,735	301,315	298,988	2,327
Total expenditures	247,735	301,315	298,988	2,327
Revenue over (under) expenditures	(165,369)	(169,311)	(166,930)	2,381
<b>Other financing sources</b>				
Transfers in	165,457	170,457	170,457	-
Net changes in fund balance	88	1,146	3,527	2,381
Fund balance, beginning of year	590	590	590	-
<b>Fund balance, end of year</b>	<b>\$ 678</b>	<b>\$ 1,736</b>	<b>\$ 4,117</b>	<b>\$ 2,381</b>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Food Service Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance - Positive (Negative)</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	
<b>Revenue</b>				
Local sources:				
Lunch sales	\$ 305,000	\$ 279,000	\$ 272,433	\$ (6,567)
Other	1,020	5,526	1,730	(3,796)
Total local sources	306,020	284,526	274,163	(10,363)
State sources:				
State aid	50,000	55,354	48,792	(6,562)
Federal sources:				
Federal aid received through the State	275,000	297,000	299,738	2,738
U.S.D.A. Donated Commodities	38,500	22,935	26,487	3,552
Total federal sources	313,500	319,935	326,225	6,290
Total revenue	669,520	659,815	649,180	(10,635)
<b>Expenditures</b>				
Supporting services	640,368	684,273	689,403	(5,130)
Net changes in fund balance	29,152	(24,458)	(40,223)	(15,765)
Fund balance, beginning of year	84,579	84,579	84,579	-
<b>Fund balance, end of year</b>	<b>\$ 113,731</b>	<b>\$ 60,121</b>	<b>\$ 44,356</b>	<b>\$ (15,765)</b>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Preschool Fund**  
**Schedule of Revenues, Expenditures and Changes in**  
**Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Variance -</b>
	<b>Original</b>	<b>Amended</b>	<b>Actual</b>	<b>Positive</b>
				<b>(Negative)</b>
<b>Revenue</b>				
Local sources:				
Other	\$ 16,300	\$ 19,000	\$ 16,997	\$ (2,003)
State sources:				
State aid	188,100	231,000	231,000	-
Total revenue	204,400	250,000	247,997	(2,003)
<b>Expenditures</b>				
Instruction:				
Early education	214,201	226,960	222,428	4,532
Supporting services:				
Improvement of Instruction	700	1,639	1,535	104
Community services:				
Child care	6,800	43,655	10,933	32,722
School administration:				
Transportation	-	740	634	106
Other services	10,904	12,840	12,556	284
Total expenditures	232,605	285,834	248,086	37,748
Net changes in fund balance	(28,205)	(35,834)	(89)	35,745
Fund balance, beginning of year	66,826	66,826	66,826	-
<b>Fund balance, end of year</b>	<b>\$ 38,621</b>	<b>\$ 30,992</b>	<b>\$ 66,737</b>	<b>\$ 35,745</b>

**LAKEVIEW COMMUNITY SCHOOLS**  
**Combining Balance Sheet**  
**Agency Funds**  
**June 30, 2005**

	<u>Student Activities</u>	<u>Payroll Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 126,145	\$ 202,210	\$ 328,355
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>Liabilities</b>			
Due to student groups	\$ 126,145	\$ -	\$ 126,145
Withholdings payable	<u>-</u>	<u>202,210</u>	<u>202,210</u>
<b>Total liabilities</b>	<u><u>\$ 126,145</u></u>	<u><u>\$ 202,210</u></u>	<u><u>\$ 328,355</u></u>

**LAKEVIEW COMMUNITY SCHOOLS**

**LAKEVIEW, MICHIGAN**

**SINGLE AUDIT**

**FOR THE YEAR ENDED JUNE 30, 2006**

**LAKEVIEW COMMUNITY SCHOOLS  
SINGLE AUDIT**

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# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS**

August 3, 2006

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools, Lakeview, Michigan, as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered Lakeview Community Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Lakeview Community School's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of Lakeview Community Schools in a separate letter dated August 3, 2006.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Lakeview Community Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.





**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

August 3, 2006

Board of Education  
Lakeview Community Schools  
Lakeview, Michigan

***Compliance***

We have audited the compliance of Lakeview Community Schools, Lakeview, Michigan, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Lakeview Community Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lakeview Community Schools' management. Our responsibility is to express an opinion on Lakeview Community Schools compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lakeview Community Schools' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Lakeview Community Schools' compliance with those requirements.

In our opinion, Lakeview Community Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### ***Internal Control Over Compliance***

The management of Lakeview Community Schools is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Lakeview Community Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### ***Schedule of Expenditures of Federal Awards***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Lakeview Community Schools as of and for the year ended June 30, 2006 and have issued our report thereon dated August 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Lakeview Community Schools basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, the Board of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, reading "Lehmann Johnson".

**LAKEVIEW COMMUNITY SCHOOLS**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Approved Grant Award Amount	Accrued (Deferred) Revenue July 1, 2005	Current Year Cash Received	Expenditures		Accrued (Deferred) Revenue June 30, 2006
						(Memo Only) Prior Year(s)	Year Ended June 30, 2006	
U.S. Department of Agriculture								
Direct Programs								
Entitlement Commodities	10.550		\$ 31,734	\$ -	\$ 22,226	\$ -	\$ 22,226	\$ -
Bonus Commodities	10.550		4,261	-	4,261	-	4,261	-
			35,995	-	26,487	-	26,487	
Passed through Michigan Department of Education								
Child Nutrition Cluster:								
National School Lunch - breakfast	10.553	051970	7,687	-	7,687	-	7,687	-
National School Lunch - breakfast	10.553	061970	59,340	-	59,340	-	59,340	-
			67,027	-	67,027	-	67,027	-
National S/L Section 4 All Lunches	10.555	051950	4,636	-	4,636	-	4,636	-
National S/L Section 4 All Lunches	10.555	061950	31,923	-	31,923	-	31,923	-
National S/L Section 11 Free & Reduced	10.555	051960	25,024	-	25,024	-	25,024	-
National S/L Section 11 Free & Reduced	10.555	061960	168,141	-	168,141	-	168,141	-
			229,724	-	229,724	-	229,724	-
Summer Food Meals	10.559	050900	2,719	-	2,719	-	2,719	-
Summer Food Sponsor Adm	10.559	051900	268	-	268	-	268	-
			2,987	-	2,987	-	2,987	-
Total Child Nutrition Cluster			299,738	-	299,738	-	299,738	-
Total U.S. Department of Agriculture			335,733	-	326,225	-	326,225	-
U.S. Department of Education								
Passed through Michigan Department of Education								
Title I, Part A	84.010	041530-0405	85,158	42,263	42,263	85,158	-	-
Title I, Part A	84.010	051530-0405	366,307	128,323	135,546	359,084	7,223	-
Title I, 2% Schoolwide Plan Grants	84.010	051520-0506	12,000	-	9,000	-	9,000	-
Title I, Part A	84.010	061530-0506	328,868	-	328,868	-	328,868	-
			792,333	170,586	515,677	444,242	345,091	-
Title V	84.298	050250-0405	5,623	1,864	1,864	5,623	-	-
Title V	84.298	060250-0506	3,604	-	3,604	-	3,604	-
			9,227	1,864	5,468	5,623	3,604	-
Technology Literacy Challenge Grant	84.318	054290-0405	9,309	1,995	1,995	9,309	-	-
Technology Literacy Challenge Grant	84.318	064290-0506	6,135	-	6,135	-	6,135	-
			15,444	1,995	8,130	9,309	6,135	-
Improving Teacher Quality	84.367	050520-0405	119,855	34,393	44,852	109,396	10,459	-
Improving Teacher Quality	84.367	060520-0506	119,442	-	100,067	-	100,067	-
Total U.S. Department of Education			1,056,301	208,838	674,194	568,570	465,356	-
U.S. Department of Health and Human Services								
Passed through Kent Intermediate School District								
Safe and Drug Free Schools	84.186		7,718	-	7,718	-	7,718	-
U.S. Department of Homeland Security								
Passed through Michigan State Police								
Homeland Security Training Exercise	97.004		6,670	-	6,670	-	6,670	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,406,422	\$ 208,838	\$ 1,014,807	\$ 568,570	\$ 805,969	\$ -

**LAKEVIEW COMMUNITY SCHOOLS**  
**SINGLE AUDIT**

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**Basis of Accounting**

Cash received is recorded on the cash basis; expenditures are recorded on the modified accrual basis of accounting. Revenues are recognized when the qualifying expenditures have been incurred and all grant requirements have been met.

**Reconciliation of Basic Financial Statements**

Revenues from federal sources per the June 30, 2006 basic financial statements agree with federal expenditures from the June 30, 2006 Schedule of Expenditures of Federal Awards.

Expenditures are in agreement with amounts reported in the basic financial statements. Management has utilized the grants section auditors report (form R7120) in preparing the Schedule of Expenditures of Federal Awards. The cash received on the Schedule of Expenditures of Federal Awards exceeds payments recorded on form R7120 because payments made by the State of Michigan were not received by the District until July 1, 2005. The funds were included as accrued revenue at June 30, 2005 and were excluded from the cash received column on the schedule of expenditures of federal awards in the prior year.

# LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2006

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### SECTION I – SUMMARY OF AUDITORS' RESULTS

#### *Financial Statements*

Type of auditor's report issued:

*Unqualified on basic financial statements*

Internal controls over financial reporting:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Reportable condition(s) identified not considered to be material weaknesses?

  x   yes      \_\_\_\_\_ none reported

Noncompliance material to financial statements noted?

\_\_\_\_\_ yes        x   no

#### *Federal Awards*

Internal Control over major programs:

Material weakness(es) identified?

\_\_\_\_\_ yes        x   no

Reportable condition(s) identified not considered to be material weaknesses?

\_\_\_\_\_ yes        x   none reported

Type of auditor's report issued on compliance for major programs:

*Unqualified*

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)?

\_\_\_\_\_ yes        x   no

#### *Identification of Major Programs*

*CFDA Number(s)*

*Name of Federal Program or Cluster*

84.010

Title I

Dollar threshold used to distinguish between Type A and Type B programs:

  \$ 300,000  

Auditee qualified as low-risk auditee?

  x   yes      \_\_\_\_\_ no

**LAKEVIEW COMMUNITY SCHOOLS, MICHIGAN**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**FOR THE YEAR ENDED JUNE 30, 2006**

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**SECTION II – FINANCIAL STATEMENT FINDINGS**

**Finding 2006-1**

Internal Control  
Finding:

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

Effect:

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of accounting duties substantially increases control over errors without duplication of effort.

Recommendation/Comment:

The School District's separation of duties within the Business Office is a recurring finding due to the small number of staff employed. The cost /benefit of accomplishing the desired segregation of duties has been considered. The School District's Business Office, consisting of two employees, attempts to separate the duties of depositing cash and/or signing checks with that of preparing the bank reconciliation and posting transactions to the general ledger. The Superintendent is extensively involved in the purchasing cycle and extensive review of transactions is completed by the Board of Education.

**SECTION III – FEDERAL AWARDS FINDINGS**

None

**SECTION IV – SUMMARY OF PRIOR AUDIT FINDINGS**

**Finding 2005-1**

Repeated as current year finding 2006-1

# Lakeview Community Schools

**123 Fifth Street  
Lakeview, Michigan 48850**

**Phone: 989-352-6226  
Fax: 989-352-8245**

*J. Mark Parsons, Superintendent  
Dixie M. Pope, Director of Business Operation  
Sara L. Shriver, Director of Federal/State Grants*

[www.lakeviewschools.net](http://www.lakeviewschools.net)

## CORRECTIVE ACTION PLAN for fiscal year ending June 30, 2006

August 25, 2006

RE: LAKEVIEW COMMUNITY SCHOOLS 38-6025862

To Whom It May Concern:

Lakeview Community School's Corrective Action Plan (CAP) to finding 2006 -1 noted in the Single Audit Report for fiscal year ending June 30, 2005 is as follows:

Finding: A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

CAP : Due to the small number of staff employed by the district and the financial economic situation of the State of Michigan and the Federal Government, at this time Lakeview Community Schools is fiscally able to make sure that attempts to separate the duties and proper checks and balances are in place. The separation of duties will include depositing of cash, signing checks, preparing bank statements and posting transactions to the general ledger. The purchasing cycle involves a multi-layer approval process. Purchase orders are input at the building level by the building secretary, and then they are approved by the building principal. If these purchase orders are for grants or special education they are further approved by the director of those departments and then the Director of Business Operations gives final approval prior to purchase. All building principals have daily access on-line to check the status of their individual accounts. This process is in place for an additional check and balance. Finally the Board of Education reviews all check transactions and approves those transactions at their monthly meetings.

If you are in need of further information, please feel free to contact me at 989-352-7221 ext. 2402.

Sincerely,

Dixie M Pope, Ed.D.  
Director of Business Operations

Cc: Rehmann Robson, Auditor



# REHMANN ROBSON

*Certified Public Accountants*

*A member of* THE REHMANN GROUP

An Independent Member of Baker Tilly International

August 3, 2006

Board of Education  
Lakeview Community Schools  
123 Fifth Street  
Lakeview, MI 48850

Board of Education:

In planning and performing our audit of the financial statements of Lakeview Community Schools (the "District") for the year ended June 30, 2006, we considered the District's internal controls to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the District's internal control in our report dated August 3, 2006, on the financial statements of the Lakeview Community Schools. This letter does not affect our report dated August 3, 2006 on the financial statements of Lakeview Community Schools.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations. Our comments are summarized as follows:

## **DISTRICT CREDIT CARD POLICIES AND PROCEDURES**

During our audit, we noted that the card policy established by the District has not been consistently followed. In our review of several credit card payments and personnel-provided support, we noted approximately 50% of the transactions were not approved by an appropriate administrator. We recommend that the District enforce its credit card policy without exception.

## **STUDENT ACTIVITIES ACCOUNTS**

During our audit, we reviewed several transactions within the student activity accounts. We noted several instances in which transactions were not approved by an appropriate department head or administrator. In order to ensure proper control over student activities funds, we recommend that all disbursements be reviewed and approved by an appropriate person before they are processed. We further recommend that the District provide periodic account statements to the related department heads and require that these statements be signed and returned to demonstrate ongoing monitoring of these accounts.



We would like to thank the staff of the business services department for their assistance and cooperation during the audit. We look forward to working with you in the future.

This information is intended solely for the use of the Board Members and Management of Lakeview Community Schools and is not intended to be and should not be used by anyone other than these specified parties.

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# Lakeview Community Schools

**123 Fifth Street  
Lakeview, Michigan 48850**

**Phone: 989-352-6226  
Fax: 989-352-8245**

*J. Mark Parsons, Superintendent  
Dixie M. Pope, Director of Business Operations*

WWW.MAISD.Com/LCS

## **CORRECTIVE ACTION PLAN for fiscal year ending June 30, 2006**

August 28, 2006

Gloria Suggitt, Auditor  
Michigan Department of Education  
Office of Audits  
608 West Allegan Street  
P O Box 30008  
Lansing, MI 48909

RE: LAKEVIEW COMMUNITY SCHOOLS 38-6025862

Dear Ms. Suggitt:

In response to the audit findings during the 2005-06 audit for both the Single Audit and the Management Letter, listed below you will find Lakeview Community School's response. Lakeview Community School's Corrective Action Plan (CAP) to finding 2005 -1 noted in the Single Audit Report for fiscal year ending June 30, 2005 is as follows:

**Finding:** A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

**CAP :** Due to the small number of staff employed by the district and the financial economic situation of the State of Michigan and the Federal Government, at this time Lakeview Community Schools is fiscally able to make sure that attempts to separate the duties and proper checks and balances are in place. The separation of duties will include depositing of cash, signing checks, preparing bank statements and posting transactions to the general ledger. The purchasing cycle involves a multi-layer approval process. Purchase orders are input at the building level by the building secretary, and then they are approved by the building principal. If these purchase orders are for grants or special education they are further approved by the director of those departments and then the Director of Business Operations gives final approval prior to purchase. All building principals have daily access on-line to check the status of their individual accounts. This process is in place for an additional check and balance. Finally the Board of Education reviews all check transactions and approves those transactions at their monthly meetings.

**Monitor:** Director of Business

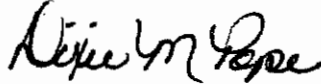
Lakeview Community School's Corrective Action Plan (CAP) regarding financial controls outlined in the management letter is as follows:

**Approval of district credit card transaction:** Although the auditors noted that in about 50% of credit card transactions appropriate administrator approval was not documented, the director of finance would look over the monthly credit card invoice, note questions, and follow-up with the administrator. In the future, each individual credit card receipt will be signed by the superintendent as that position is over building principals, director of grants, and director of finance. **Monitor:** Director of Business.

**Approval of Student Activities Accounts:** Although the auditors noted that some transactions did not have appropriate administrator approval, the transactions were approved by the advisor of that particular student activity. In addition, the accounts payable clerk meets at the beginning of each year with the advisor and goes over the individual accounts, with both of them agreeing on the final account balance. In the future, the accounts payable clerk will meet three times a year (beginning, middle, and end of year), review accounts, and have the activity advisor document by signing that they agree with the transactions and the balance. Monitor: Director of Business.

If you are in need of further information, please feel free to contact me at 989-352-6226 or 989-352-7221 ext. 2402.

Sincerely,

A handwritten signature in black ink, appearing to read "Dixie M Pope".

Dixie M Pope, Ed.D.  
Director of Business Operations

Cc: ~~Rehmann Robson, Auditor~~  
Board of Education  
J. Mark Parsons, Superintendent  
Tricia Root, Accounts Payable Clerk